Industrial Distribution

May 1984

Hotline:
Increasing demand for specials spells profits for distributors

Preview:
1984 Triple Industrial Supply Convention

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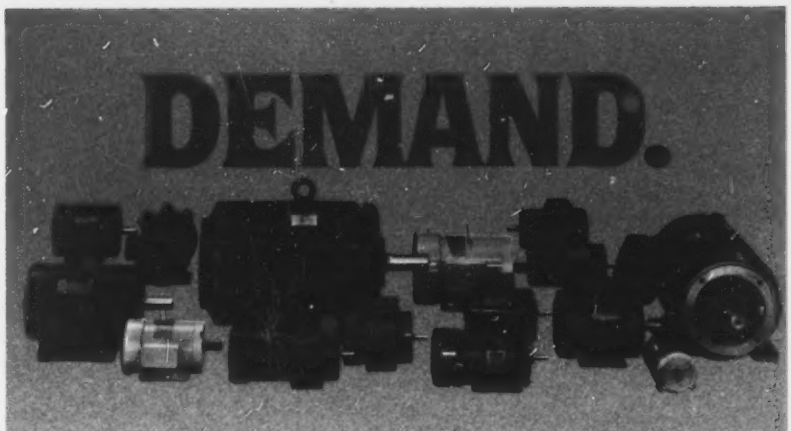
Indicators . . .

A favorable economy continues as most indicators continue to rise. The *NIDA-SIDA Industrial Distribution Index* climbed to 132.1 in February, a 3.4% increase over the previous month. This is the *Index's* highest level since April, 1982. Gains were registered in all but the southern region, which was down 1.6 points to 128.7. The strongest gain was in the midwest, up 8.7 points to 127.5. The *NIDA-SIDA Industrial Supply Inflation Index* rose 0.3% in February to 157.0 . . . According to the *SIDA Monthly Sales Trend Report*, sales showed a decline of 2.66 points for January from the previous month. January had sales 26.62 points ahead of January, 1983 . . . The *ASMMA New Order Index* was up to 119.6 for January, an increase of 7.0 points, or 6.2% from the previous month . . . New machine tool sales by distributors were down 4.1% in January from the previous month, but the current index, standing at 57.7 for January, is 27% higher than the January, 1983 index according to the American Machine Tool Distributor's Assn. The *Distributors New Orders Trend* posted a 2.3% rise from its December level and now stands at 53.4. Sales of metal cutting machine tools were down 8.4% in January while sales of metal forming machine tools rose 29.2% . . . According to the National Machine Tool Builders' Assn., net new orders were up 26.0% in January from December totals, and shipments, reflecting low order rates during early 1983, declined 53.0%. Compared to January, 1983 totals, this January's orders were up 107.9% while shipments were down 26.7% . . . The *Welding Supply Index*, compiled by the National Welding Supply Assn., registered 155.2 for January, up 13.0 points, or 9.1% from the previous month. January, 1984 increased 23.2% over January, 1983 . . . The National Wholesale Hardware Assn.'s *Hardware Sales Index* stood at 119.8 for January, up 6.4 points from the previous month, an increase of 15.1%. Sales by distributors advanced 14.2% based on January, 1984 to January, 1983 comparisons. Particularly strong sales were reported in the southwest regions where average daily sales were up 30.8%.



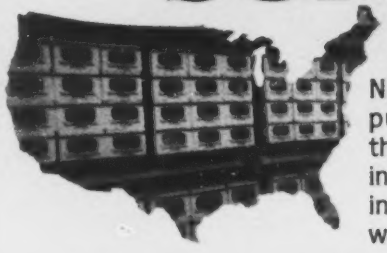
If you sell electric motors, you should demand a few extras from your motor supplier. Like extra service: before, during and after each sale.

You should demand a supplier with their ear to the ground and their eye on your future. In short, a company that really cares about your business, and *not just theirs!*

At Leeson, we work hard to earn our distributor's business. So we deliver what you demand: solid profit building programs, a broad product line, national advertising, merchandising support, and competitive pricing.

And, because we understand the demands of your business, we provide close-by factory warehouses to cut freight expenses, trim inventory, and still insure fast delivery for your customers.

SUPPLY.



Leeson has hundreds of different, energy-saving NEMA general and definite purpose motors, single or three phase, from ¼ to 125 HP, in 20 well-stocked warehouses in the U.S. and Canada. And we're planning more right now.

We'll back you with 29 sales offices and our factory Distributor Services Department. Your single information source for order entry, expediting, delivery and pricing — someone's always here to help.

You might say that we're doing things right because we follow that old rule of success: you demand, we supply. Join the Leeson team. Contact our Distributor Services Dept., Leeson Electric Corp., Grafton, WI 53024. 414/377-8810.

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LEESON

QUALITY ELECTRIC MOTORS

Write in No. 20

REGIONAL REPORT

February sales surge to new high

Results for February, in just about all categories reporting, surged to record highs, with the national average sales figure for February '84, compared to February '83, rising 31%.

These results can be misleading in at least one respect: current figures may not truly reflect sales highs at individual distribution businesses, but rather compare favorably to what were very low sales figures, in some cases bottom figures, in February '83. Nevertheless, they are indicative of a very healthy business climate at present.

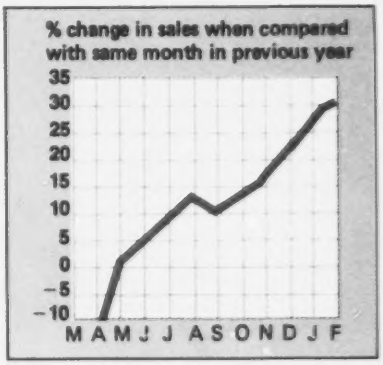
Perhaps the most heartening figures are in the month-to-month comparisons, which are the best indicators of immediate trends. Here, recent softness in the figures for January, which reflected a slowing trend in sales, were completely wiped out. The monthly comparison for January, just 1%, rose to 7% in February.

The first 2 months of '84, compared to '83, rose 35%. The January figure was up 20%, and as the first quarter of '83 was weak, these favorable comparisons should continue, perhaps until May or June, when the recovery in distribution began.

There were no weak regions or areas in the national statistics recorded. The Pacific region, which came alive in January, continues to show strong sales, with the Oregon-Washington area up 22%. The East North Central Region recorded very strong sales with Wisconsin and Michigan leading the way with gains of 61% and 46% respectively. □

RECEIVABLES*	Feb. '84 Gen.	Feb. '84 Spec.	Feb. '83 Gen.	Feb. '83 Spec.
New England	39	51	41	48
Middle Atlantic	42	46	41	43
South Atlantic	33	34	37	34
East North Central	38	48	38	45
East South Central	36	—	38	—
West North Central	28	39	28	42
West South Central	—	45	—	47
Mountain	—	—	—	—
Pacific	38	41	37	44
National	36	43	37	43

*Average days outstanding



Sales touch new high in February . . .

SALES BY REGIONS (% change)	Feb. '84 vs Jan. '84 Gen.	Spec.	Both	Feb. '84 vs Feb. '83 Gen.	Spec.	Both	1st 2 mo. '84 vs 1st 2 mo. '83 Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	−1	+3	0	+27	+14	+24	+27	+14	+24
Connecticut	−6	+11	−2	+36	+18	+30	+43	+19	+35
Massachusetts	+12	—	—	+23	—	—	+18	—	—
MIDDLE ATLANTIC: NY, NJ, PA	+3	+17	+9	+11	+37	+26	+11	+33	+23
New York Metropolitan Area	—	—	—	—	—	—	—	—	—
Upstate New York	−6	+17	+2	+13	+49	+26	+16	+40	+25
Pennsylvania	+6	+27	+17	+14	+53	+35	+17	+45	+32
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC,	+7	−1	+4	+33	+18	+27	+30	+19	+25
SC, VA, WV	—	—	—	—	—	—	—	—	—
Georgia-Florida	—	—	—	+39	+17	+25	+39	+21	+28
EAST NORTH CENTRAL: OH, IN, IL, MI, WI	+3	+18	+11	+37	+56	+47	+31	+44	+37
Indiana	—	—	—	—	—	—	—	—	—
Wisconsin	+13	+28	+25	+37	+68	+61	+13	+53	+43
Chicago	—	—	—	—	—	—	—	—	—
Michigan	+12	+16	+14	+48	+44	+46	+41	+36	+38
Ohio	—	—	—	—	—	—	—	—	—
EAST SOUTH CENTRAL: AL, MS, KY, TN	—	—	—	—	—	—	—	—	—
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	+10	+7	+8	+10	+37	+27	+13	+28	+23
WEST SOUTH CENTRAL: AK, LA, OK, TX	—	+8	—	—	+25	—	—	+15	—
Texas	—	+7	—	—	+19	—	—	+16	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	—	—	—	—	—	—	—	—	—
PACIFIC: CA, OR, WA	−5	+16	+8	+22	+34	+25	+23	+27	+24
L.A.-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	−1	+17	+8	+23	+22	+23	+28	+20	+24
U.S. TOTALS	−4	+11	+7	+27	+34	+31	+42	+28	+35

The future is now for industrial distributors because every decision affecting their operations today will be reflected in how stable and profitable they will be in the 1990s and beyond. One manufacturing executive has looked toward the future and has come up with predictions on the changes and the challenges that will most assuredly affect the character of both distribution and supply.

Industrial distribution: 1990...

Focal points: 1990

- People
- Expansion and growth
- Marketing
- Management data and communications
- Operations and transportation
- Financing and profitability
- Customer services
- Organization and management
- Legislation and involvement
- Competition
- THE UNKNOWN

It's obvious by the way distributors are applying better management methods and the newer operating technologies that by the 1990s, this industry will assume more of the kind of corporate character of the larger, more advanced companies. Every resource, from people to computer-generated management information, and every asset from warehouse equipment to the computer itself, will be honed down to their most productive size and coordinated into a streamlined, fail-safe, operating system.

But despite the trend in distribution toward unitizing the entire operation into a single, smooth-flowing system, the strongest focus now and into the 1990s will be on improving the individual elements: the people, the equipment, the computer, the sub-systems such as order processing, billing, order-picking, delivery and the rest, until they mesh with each other in a way that allows them to operate in unison as a precisely synchronized team.

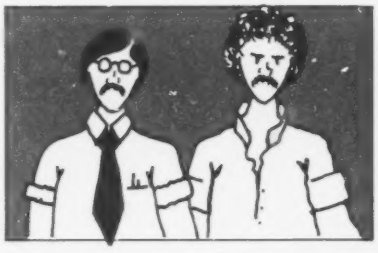
The idea is to create a workable, minimum-operating-cost, error-free, smooth-flowing system involving everything from management information and day-to-day records to everything that goes into processing and delivering an order.

The so-called unmanned, unlighted, totally automated "blackbox" facility won't happen until well into the 21st Century, if at all, so again, it's important for distributors aiming at a prosperous 1990 and beyond to focus on improving the system's individual components—people, equipment, management—and watch a company-wide productive system slowly take shape.

A number of experts and research studies such as National Assn. of Wholesaler-Distributors' *Future Trends in Wholesale Distribution* have shown what might happen to distribution in the near future. Edward L. Reid, Jr., a highly placed manufacturer's executive, offers these prognostications.

People

People are priority one in any discussion about the challenges of the next decade because it is people from the blue collar warehouse worker to the top manager in the company who will generate the ideas, recognize the problems and implement the solutions.



According to Dr. Chip R. Bell of Lead Associates, Inc., by the year 1990, workers will be represented on policymaking boards, participate in team hiring and team planning, and will provide input regarding

selection of managers and new products or, in the case of distributors, the product lines to stock and sell. Employees will:

- identify less with the work ethic
- spend 45% of their lives in non-work activities
- retire earlier from their "primary" employment but will spend more of their lives working since retirement age will have no upper limits
- grow in average age from 32 in 1980 to 40-plus in 1990
- receive work sabbaticals with pay
- receive free, subsidized educational benefits with more than half of their pay being allocated to benefits chosen from a "cafeteria of benefits"
- exercise increased job mobility, changing careers three to four times in their work lives.

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MODEL 42	42 × 19 × 19	8.8 cu. ft.
MODEL 4824	48 × 24 × 24	16 cu. ft.
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60 × 24 × 24
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Management will have to deal with increases in executive unionization, increases in professional strikes, and increases in permanent part-time workers.

Many distributor employees will never leave home. They will work from a computer terminal as efficiently as if they went to the office. The distribution executive will have a desktop computer that will help him solve problems in every area of his business, reducing the need for written reports.

Manpower planning and allocation together with hiring, training, and development of people will increase in importance. Formal training at the college level in the functions of industrial distribution and promotion from both inside and outside the industry will solve today's existing problems of management succession.

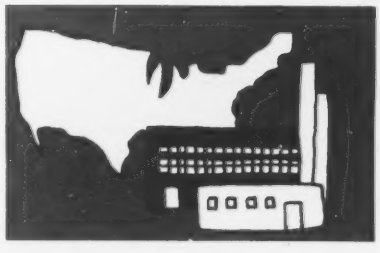
Expansion and growth

Manufacturing employment and manufacturing earnings will continue to shift from the northeast and midwest to the southeast, southwest, and west coast.

Durable and non-durable manufacturing employment will decline to 6% of the U.S. total in New England, 15% in the Middle Atlantic region, and 23% in the East-North Central area. Total manufacturing employment will increase in the Southwest to 24% of the U.S. total, in the West Central region to 15%, and in the Western region to 17%. (See table.)

The growth of high technology industries will foster growth of specialty distribution to meet customer demand, for example, electronic industrial distribution.

By 1990, you could see a small handful of industrial distribution firms with more than $1-2 billion in sales. Distributors will expand substantially as a result of productivity gains and marketing of new *value-added* services including systems contracting, fabricating, repair, servicing and warranty for



products sold. The biggest distributors will become corporate giants, operating on a national and international basis.

Some mid-sized distributors, not able to adapt to the challenges and changes, will specialize within a region, sell out, diminish in size, or fail. Small distributors will sur-

Regional Share of U.S. Manufacturing Employment, 1975 Projections for 1985 and 1990

(Percent)

		New England	Middle Atlantic	North Central	South East	West Central	Western
Total Manufacturing	1955	9%	26%	29%	16%	10%	10%
	1965	8	23	27	19	11	12
	1975	7	19	26	21	14	13
	1985	6	16	24	23	15	16
	1990	6	15	23	24	15	17

Key

New England - CT, ME, NH, RI, VT, MA
Middle Atlantic - NJ, NY, PA
East North Central - IL, IN, MI, OH, WI
East South East - AL, DE, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA, WV
West Central - ND, SD, NE, MN, IA, KS, MO, OK, AR, TX, LA
Western - AZ, CA, CO, ID, MT, NE, NM, OR, UT, WA, WY, AK, HI

(1) Source: McGraw-Hill Department of Economics, "Regional Shares of U.S. Manufacturing Employment, 1975, Projections for 1985 and 1990."

vive by concentrating on smaller accounts.

U.S. industrial distribution will become more involved with foreign markets and develop export business and joint ventures with foreign concerns. And as foreign interests become more concerned with industrial distribution in the U.S., they will acquire equity positions in and full ownership of U.S. distributors. A study by the NAW Distribution Research & Education Foundation (DREF) projects that by 1990, 10% of sales will come from distributors that are foreign owned and 15% of sales will be foreign supplied. The same study showed distributor market share getting larger at the expense of manufacturers' sales branches, manufacturers' agents, and manufacturers' direct sales.

Distributors will integrate vertically by buying out small specialty manufacturers of products that have long lead times, are profitable, and are compatible with the distributor's specialty. Franchising will also be attempted as a low-cost method of expanding outlets.

Automotive aftermarket, consumer, and industrial distributors will form large combines while manufacturers, intrigued by the growth of industrial distributors, will buy out non-conflicting distributors and allow them to operate at arm's length. By 1990, it is estimated that total wholesale distribution will be a $3 trillion industry.

Marketing

Industrial distribution will become increasingly market oriented and decreasingly sales oriented in its quest for greater productivity and profits. The key focus will be on profit goals as opposed to sales goals, and written strategic planning will be the foundation for distributors' annual and long-range planning.

Specialization and single-sourcing by distributors will become critical as both

distributor and manufacturer realize that profitable market penetration cannot be achieved with multiple lines.

As specialization and single sourcing become factors, distributors and vendors will join forces to implement marketing plans that:

- Identify potential by product, application, company, and industry
- Integrate long-term and short-term economic forecasting by product and application
- Establish mutual sales plans and goals
- Measure and follow-up on results of marketing plan sales goals

Vendors will then be able to say with some degree of validity that distribution is truly their "marketing arm."

As distributors complete computerization

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Paul J. Circo, V.P. Precision Bearing

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Write in No. 59

of their operations, computers will be used for marketing functions ranging from planning to establishing direct mail lists by SIC, customer, plant, and individual.

The teaming of distributors' marketing resources with those of the vendor will permit greater penetration of territories and key accounts. The vendor/distributor sales team will be given specific direction by the marketing department which will pinpoint customers and applications by product potential.

Compensation of the marketing representatives will be based on profits, not volume. Distributors will find the mix of salary, bonus, and commission developing a more highly motivated sales force with commissions being paid on short-term growth and bonuses paid on long-term objectives. As a result, the implementation of strategic market planning by the industrial distributor will greatly enhance his importance to the manufacturer and customer. By the end of the 80's, industrial distribution will be an extension of the vendor's marketing arm and, in some cases, will become the vendor's marketing department.

Management data and communications

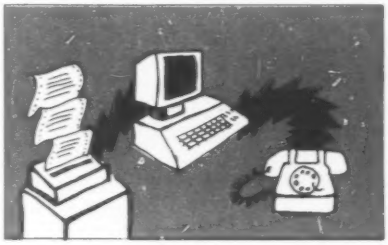
Computers are now starting to fulfill their 10-year-old promise for industrial distributors. However, there still remain significant risks for the inexperienced as computer and communications technology becomes increasingly sophisticated.

As a a result of diverse activity and competition, the computing/communications industry is a chaotic and confusing marketplace. Even as the promise becomes a possibility, attaining it will require more management attention and organizational discipline.

One key breakthrough in the use of computers for industrial distribution is the development of software programs by distributors or distributor-oriented programmers. To assist this trend, a new tax benefit for distributors who develop their own or improved software has recently been approved. In addition, the total expenditure \for purchased software is 100% tax deductible. And any increase in developmental cost over the previous year receives an additional 25% tax credit. These new tax incentives, together with the quest to increase productivity and lower cost, will lead to an explosion of software programs in the sales, marketing, finance, administration, and operational functions—purchasing, inventory, materials handling—of the distributor.

Commonplace by the end of the decade will be:

- Greater use of the computer in administration, sales, and market planning functions
- Electronic transmission from the manufacturer's computer to the distributor's computer that will range from ordering and inventorying to utilization of marketing tools such as transferring product data, applications data, and training materials
- Desktop computers for the distributor executive
- Use of universal product bar codes to allow a distributor to scan incoming inventory and record outgoing inventory transactions with the scanner tied into a computer, making instantaneous adjustments in inventory
- Customers who will be tied into the distributor's computer to access data ranging from product information, price, availability, and delivery and then transmit the order. The distributor will use his computer to direct the customer's order to the vendor



As a result of computerization, the MIS or Management Information Systems Dept. will become the key to the effective utilization of computer hardware and software. Industrial distributors will have to simplify their business operations. All products, programs, policies, philosophies, procedures, and paperwork will have to be analyzed by the appropriate department head and the MIS manager who will become a key member of distribution management.

The new operating system software will merge office system functions such as word processing and electronic mail with more traditional data processing functions. Word processing will be common by 1990 and will be utilized, first by the sales force and then by distributor management to provide efficient, effective and professionally written communications to their customers and vendors.

Word processing will allow the salesman to dictate into the telephone at his leisure in the evening, leaving daytime open for selling. The salesman will create form letters that can be used for follow-ups, thank you letters, outline letters of calls completed, and "proposal selling." Computers can update customer files, and, most importantly, allow a quick response to customer inquiries which will increase the *eyeball-to-eyeball* selling time of the sales force.

Telecommunications technology advances and deregulation of the communica-

Manufacturing Earnings Actual and Projected, 1970 - 2000

(1967 Dollars, In Millions)

	1970	1980	1990	2000	Increase
U.S. (total)	156,589	216,533	280,419	348,408	122.5%
New England	11,034	13,390	15,810	17,907	61.6
Mideast	37,624	43,034	48,257	52,641	39.9
Great Lakes	45,580	63,080	77,758	91,168	100.0
Plains	9,785	14,181	18,717	23,493	140.0
Southeast	24,674	41,810	63,024	88,473	258.6
Southwest	7,671	12,745	19,648	27,890	263.6
Mountain	1,868	3,326	5,034	7,119	281.1
Far West	18,041	24,597	31,607	38,938	115.8

Key

New England - CT, ME, NH, RI, VT, MA
Mideast - DE, DC, MD, NJ, NY, PA
Great Lakes - IL, IN, MI, OH, WI
Plains - IA, KS, MN, MO, NB, ND, SD
Southeast - AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, WV
Southwest - AZ, NM, OK, TX
Mountain - CO, ID, MT, UT, WY
Far West - CA, NV, OR, WA

(Source: Bureau of Economic Analysis)

tions industry will allow distributors a low cost capability of instant and constant communications with their customers, personnel, vendors, and their computers.

Audiovisual communications between branches and headquarters will be commonplace. Sales meetings will be held at branch locations throughout the country utilizing VCR and "live" transmission technology.

The effective use of MIS requires a plan which includes:

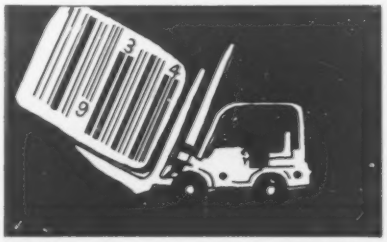
- A broad but clear statement of the business' goals and how the system should support those goals
- A brief overview of what application systems are required and which existing systems are not operating satisfactorily
- An identified team of senior managers who can cooperatively nurture the development of new systems
- A capital expenditure plan for new hardware/software with clearly defined goals
- A schedule that spans two or three years

Also necessary are: the consolidation of management of data processing, voice and data communications, office systems, and business planning; an MIS manager who is a businessman first and a technician secondly; and an investment in training employees in the use of new systems and communications facilities.

With all of the technology and programs available, the key to success will be our ability to select technology and manage our employees appropriately.

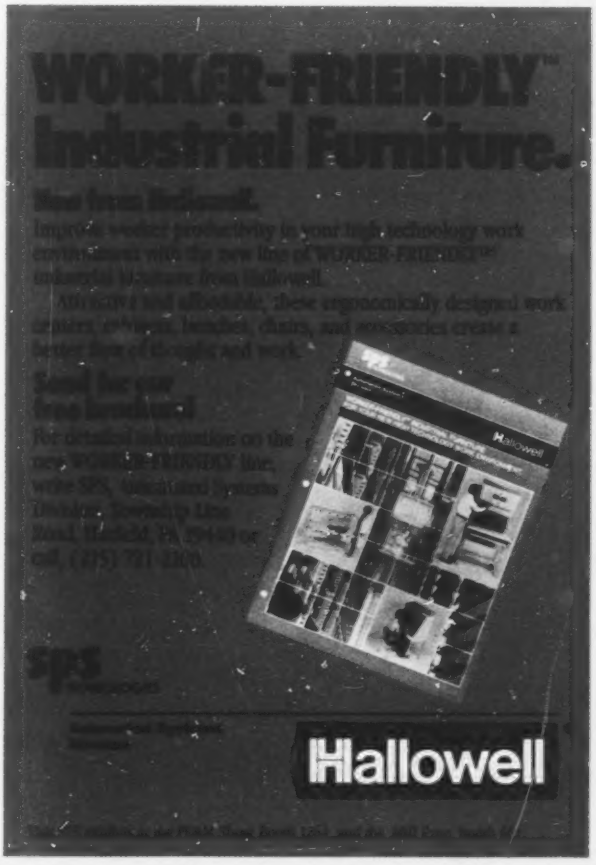
Operations and transporation

The *Universal Product Code*, adopted across the board by industrial distributors and manufacturers, will permit many of the internal operations of the distributor to be computerized, accelerating productivity. Increasingly, distribution will be patterned after the $13 million automated storage and retrieval system installed by W.W. Grainger in its distribution center.



Financing and profitability

One way to alleviate the money squeeze on distribution is to foster a better understanding between the wholesaler-distributor and his banker. In the coming years, we will see traditional bankers using new standards in financing distributors' growth. However, there will be other areas for industrial distribution to source money for its expansion during the next ten years, including: insurance companies, industrial revenue bonds, venture capital, the Small Business Administration, mergers and acquisitions creating *distribution groups* or holding companies, and financing through public ownership.



Industrial distribution: 1990...

A recent survey by NAW's DREF found that 15% of all wholesale and distribution firms were publicly held in 1980 but controlled a total of 37% of total industry sales. It predicted that public ownership will increase to 30% by 1990 with control of 60% of sales. The report concluded that many distributors will go public or seek foreign investment in the next 10 years.

The one major unknown that distributor management will have to be constantly evaluating is the potential for deflation during the latter part of the 80s. It is my opinion that there is a 30 to 40% chance that deflation will occur in this decade. Careful analysis of the symptoms of deflation as it impacts upon profitability must be factored into contingency plans.

Customer services

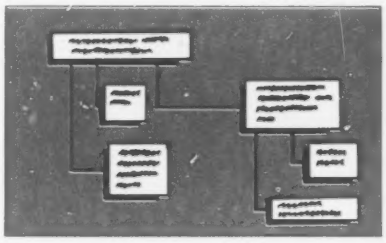
In the late 80s, distribution will focus on adding services and functions for vendors and customers thus enhancing its existence as a viable function in commerce. The value-added service will develop into a *total systems approach* of service which will include not only selling the product but fabrication, repair, warranting, installing, manufacturing and technical assistance.

Industrial distribution will manufacture specialty items. It will integrate vertically back to the base manufacturing function as well as integrate horizontally within the channel of distribution. And because of the total systems approach to service, industrial distributors will be in a better position to sell OEMs and a growing portion of their sales will be to this market as opposed to the MRO or process industries.

Organization and management

Managers realize that they must control and influence three key areas: planning, organizational structure, and personnel. They know that the organization has to be designed to accomplish in, a productive manner, the mission and key strategies of the company. Management also realizes that it must select the right person for the right job within the organizational structure. After this is accomplished, the major task of management is to monitor, follow up, and inspect the results for validity.

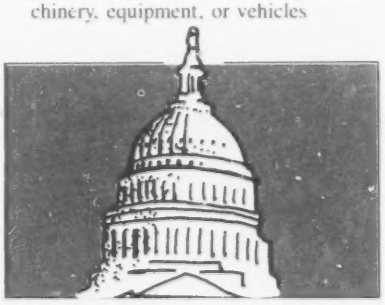
Distribution management will be far more involved in overseeing the organizational structure and management selection in the future. Management will be recruited outside the industry to bring new ideas and concepts into the field.



Legislation and involvement

In the future, distributor management will spend more time lobbying local, state and Federal governments on such issues as removing barriers to capital formation, business perpetuation, and investment for real growth. The results will be beneficial, not only to industrial distributors, but to all wholesalers. An excellent first step was taken with the passing of the *Economic Recovery Act of 1981*, which, among things, directly benefitted distributors by:

- Allowing for greater, more rapid recovery of capital expenditures for investments in depreciating new warehouses and other structures, machinery, equipment, and vehicles with a simpler and more realistic "Accelerated Cost Recovery" System
- Simplifying LIFO inventory accounting conversion and administration
- Reducing the tax rate of the first $50,000 of corporate taxable income by 2%
- Providing direct expensing in the year of purchase up to $10,000 in eligible machinery, equipment, or vehicles



- Replacing with a graduated credit of up to 20%, the 10% investment credit for expenditures to rehabilitate commercial structures, including distributor warehouses

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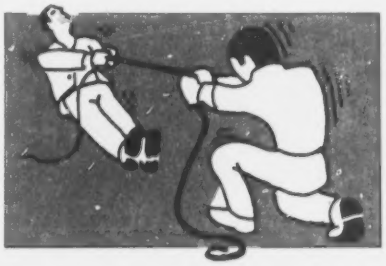
Industrial distribution: 1990...

- Raising the amount of used property eligible for investment credit to $150,000
- Increasing the credit against accumulated earnings tax to $250,000
- Increasing the maximum number of shareholders for a Sub-Chapter corporation to 25 from 15
- Increasing the exemption for estate taxes to $600,00 in 1987
- Reducing the top estate tax rate on a phase-in basis from 70% to a maximum of 50%

Many other areas that need to be changed in the tax code were not addressed in the *1981 Act*. Wholesale-distributor organizations will need to rally behind these changes to make government aware of the importance of an economically sound industrial distribution industry.

Competition

A truly qualified industrial distributor will meet the challenge of competition by outpromoting competition with your experience and contacts. Stabilize your operation by stocking up, eliminating backorders and erratic accounting and billing. Make buying from you problem-proof from salesmen to inventory and be 100% service oriented . . . Plan well ahead for contingencies that can even remotely cut into your image of reliability among your customers. Retain your standards, price notwithstanding. (From an **ID** editorial.)



Competition will intensify in distribution as companies begin to challenge each other. A key strategy is to recognize that you can't be everything to everybody. It is far better to determine the strengths of your company and make the most of those strengths servicing your customers. As distribution expands at a faster rate than the economy as a whole, competition will occur in such areas as value-added on services. The companies that compete with a product mentality will be obliterated by companies working with a total systems selling and service approach.

THE UNKNOWN

One has to be naive to think that the future can be accurately predicted. At best, only

broadly based strategies and missions derived from assumptions for the future can be set for a company.

On the other hand, distributors can be prepared for those high probability events with a flexible contingency plan to help them through uncharted waters. Management can project internal factors based on allocations of resources but it is more difficult to project external factors such as governmental regulations, the economy, war or peace, new competition, and new technologies.

Recognizing that there will be unknowns, strategic planning allows flexibility to meet the constantly changing challenges of the external environment.

Management must be alert to symptoms of change in markets and customer locations. It must also be informed and knowledgeable concerning trends that can affect the company.

The unknown will add to the challenges and changes in the future and these will be met by distributors who have developed creative and innovative management to guide them.□

About the author:

Edward L. Reid, Jr. *is a graduate of Babson College with a B.S. degree in Business Administration. He served with the U.S. Navy Supply Corps for three years before joining Exxon in 1961 as a sales manager for the company's Dealer and Automotive Aftermarket.*

In 1967, he joined Loctite Corporation as marketing manager-Industrial Distribution, the position he held until he became vice president and general manager of the company's general industrial business. He was subsequently named vice president-Industrial Distribution, his current position.

VIEWPOINT

Question: Were you rendered impotent by the recent recession . . . or did you use the time to prepare yourself and your company for the good times that lie ahead?

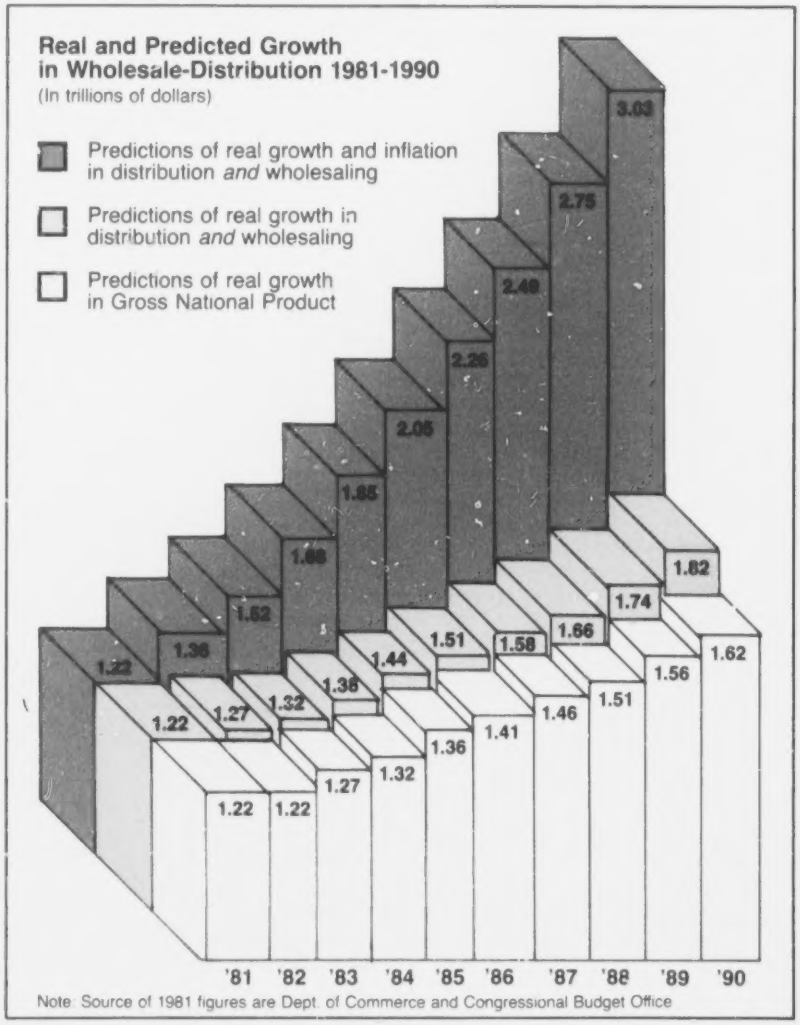
If the recent recession gave customers time to sort out the best, distributors who were not using that same time to remake themselves into the best are not going to be around for long.

What is the best? How does a distributor determine whether perchance he is already the best—or if not, what he must do to remake himself to be the best?

Since October, 1982, it's been easier to either evaluate, remake the operation, or both. National Assn. of Wholesales-Distributors' Distribution Research & Education Foundation issued results of a nationwide survey in its report: *Future Trends in Wholesale Distribution: A Time of Opportunity.* It was the latest, most comprehensive look at the direction of wholesaling and distribution in the U.S. Above all, it provided the individual distributor with a standard for evaluating his own business and its compass heading; it also provided a guideline for reorienting the business toward the opportunities foreseen for the years ahead.

The *DREF Report*, heavy with statistics and forecasts, painted a picture of what the industry would be doing 10 years hence, those firms that survive, that is. The survey employed the highly regarded *Delphi Forecasting Method.*

What distributors will be doing successfully or unsuccessfully 10 years from now is actually a reflection of their progressiveness today. Those suceeding or surviving in adversity now are the firms that can be counted on to perform admirably and, of course, profitably, in 1994. And if you are one of the successful ones today, or you plan to emulate them by studying and implementing some of their methods, you too will succeed or 10 years from now your firm won't be



Note: Source of 1981 figures are Dept. of Commerce and Congressional Budget Office

About the author:
Consultant **Dickey Dyer** has served nearly 200 clients in wholesaling, distribution and related industries over a span of 42 years. A long-time contributor to trade media, all-around distributor specialist Dyer is well known for his no-nonsense, often offbeat, but always practicable view of industry trends and his approach to problem-solving. Here, Dyer gives his own, highly personalized view of the future of distribution and how the distributor aware of the new challenges can make them work for him.

around to reap some of the benefits.

What are these firms doing that you really should be doing now and absolutely must be doing a decade hence to survive?

Why now?

This is no time to get euphoric. The grade of the current upturn is minimal. Recovery is going to be slow. Don't relax! Don't get overconfident! Use this slow recovery time to get yourself positioned for the better times that lie ahead in the near term. You have got to get through the near term if you expect to be a survivor at the end of the decade.

Your most important consideration right now is to accept the painful fact that the good times that lie ahead in the near term aren't going to be like what good times were before. While these upcoming good times will assuredly find more product moving through distribution than ever before, there will be a substantial change in product type. The volume of supplies that distribution had purveyed to the steel industry, the automotive industry and to their vast support structure will never be again. It is gone forever.

'The recession gave our customers a better appreciation of what distributors can do for them to help them cut their overall costs.'—
Turner Warmack, vice president, sales
Ziegler Tools, Inc., Atlanta, GA

You have all read that you must make up with high-tech the 20%-30% you have lost forever in sales to customers serving steel, automotive and other markets. That's easier said than done. You don't know much about the field. Your experience is heavy in hard good distribution. You don't know the high-tech market; you don't know the products; you don't know the manufacturers.

Your best bet is to acquire a small firm in your area that knows the high-tech field—if you have the money, the inside organization, the selling organization. The small firm has the high-tech know-how. It's a beautiful marriage; you command the market; it commands the product. Of course, you'll probably have to become a polygamist before you take on enough small high-tech firms to replace what you've lost in your traditional volume markets.

How do you know which firm to seek out for high-tech product lines? This isn't so hard to determine. Some of what you now sell is bought by high-tech outfits in your market area. Set priorities for your selling effort in this order: (1) firms making personal computers, (2) firms making general electronic equipment, (3) firms making energy conserving products, (4) firms making communications equipment. Seek these firms out, sell them what you have, make friends. Find out what these firms buy in high-tech and who sel it to them. Somewhere among these selling firms are your candidates for acquisition or merger.

You will be engaged in an acquisition program, not to increase your size, but to acquire know-how in order to maintain your size. The high-tech market is expanding rapidly. This market expansion will give you your desired size and scope if you choose well in selecting your partners.

Have someone aboard to coordinate the pursuit of high-tech acquisitions. Call this person your marketing manager. If your sales manager doesn't fill the bill, then you'd better assume the role yourself.

Modernize.

You must equip yourself to be able to supply your customers under systems contracts. This means that on behalf of your systems contract customers, you must keep abreast of the technological advances being made in the products they buy. You must do the research and the shopping around that has been so costly for your customers to perform. In short, you must support your MRO buyers.

Next, you must become so skillful at inventory management as it applies to your own unique needs that you are able to supplant your systems contract customers' needs for inventory management by assuring them product availability. You will have to organize your own inventory management system so that you closely track the inventory you have placed at your customers' facilities. Moreover, your skill at inventory mangement will enable you to broaden the range of product you can manage in each product line. This is a competitive advantage.

To operate systems contracts and manage multiple inventories, you will need well-programmed computing equipment and low-cost telecommunications linkages between your customers and your computerized records. This does not necessarily mean on-line order entry from terminals you have installed in your customers' plants. Such arrangements also streamline your dealings with suppliers, since you will now have a precise method for knowing your day-to-day needs and can communicate them to your supply sources. It is also a benefit when dealing with customers not on systems contracts but those who demand speedy response.

You will need to enhance your profitability by shifting the onus for market cultivation and customer cultivation from outside salespersons to professional telephone salespersons, not the reactive inside salesperson who simply takes incoming order from the mail or by telephone.

'This recession gave me the time to think through and to put into operation the marketing and management enhancements for which I never had the time, nor the inclination, nor the incentive, when business was so blamed good.'—
Glenn Patron, president,
Bearings & Transmissions, Ponce, PR

Under systems contracting embracing management of customers' inventories, you have created your own early-warning system and have minimized the need for fast delivery to respond to emergencies. But with telephone selling, speed of delivery is crucial. It is the whole package that impresses the new customer or the newly reactivated old customer and conditions him for systems contracting. If only a limited portion of your sales require hyper-fast reaction, you ought to be able to accomplish it successfully without incurring the exorbitant expense encountered when all deliveries are emergencies.

You will need to further enhance your profitability by recognizing that you can shortcut some of the expense of telephone selling by running product seminars for your established customers to provide for them what telephone salespersons provide on a one-on-one basis to a newly identified prospect.

You will need to further enhance your profitability of reducing unproductive marketing efforts. You will henceforth be able to do your marketing planning much more precisely and to measure your marketing effectiveness much more exactly than you have been able to in the past owing to newly developed data such as National and Southern Industrial Distributors Assn.'s quantification factors for market sizing and sales penetration measurement.

You will also need to further enchance your profitability by enlarging your geographic marketing using your computer to facilitate systems contracting and concomitant management of your customers' inventories. You have in combination with modern telecommunications equipment (WATS telephone service and computer terminals) the capability to mount a presence in new geographic markets at very little cost; no longer must you have resident salespersons and locally warehoused inventory.

There is one dark cloud on your horizon. Maybe it won't develop into a thunderhead. That is electronic funds transfer. Your suppliers have the clout to enforce this on you, but you probably don't on your customers. If this phenomenon, as has been predicted does finally transpire, you will simply have to arrange for banks to finance your receivables in the names of your customers. You will not be able to afford to do it yourself. It could add to an additional 30 days requirement for cash if your suppliers insist on funds transfer at the time of shipment to you.

The realities

Many distributors never stop honing their skills, as a result, are already well into the steps leading to a successful future. This doesn't mean that the future is their's exclusively. For those of you who have the time and the willingness, right now is the time to position your entire operation and your thinking for the good times that surely lie ahead. □

The challenges: 1990 and beyond

- Inventory management for customers
- Customer education and training
- Systems selling and planned order systems
- Market research and analysis
- Sale of hi-tech products
- Implementation of high-tech internally
- Shift toward more disposable-type items
- Demand for professional management and sales
- Greatest changes in inside and outside sales, inventory control, financial control
- External training by trade associations
- Volume discounts and lower prices
- Capability of inside sales, delivery, inventory
- Strategic business planning
- Range of real value-added services
- Efficiency and scope of information exchange between distributor and his customer, distributor and supplier
- Asset management
- Ongoing retraining to pace trends
- Awareness of foreign competition

Excerpted from* Future Trends in Wholesale Distribution. *For a complete copy of the study, write Distribution & Education Foundation, 1725 K Street NW, Washington DC 20006. Price: $50.

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